

**Statement of John Sponyoe  
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**Hearing on  
International Satellite Reform**

**Before the  
Subcommittee on Communications  
Committee of Commerce, Science, and Transportation**

**United States Senate**

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Mr. Chairman, I would like to thank you and the other members of the Committee for the opportunity to present Lockheed Martin's views on the ORBIT legislation that you have introduced, and that your colleagues, Chairman McCain and Senators Bryan, Brownback, Cleland, and Dorgan have co-sponsored. Lockheed Martin commends the Subcommittee for its willingness to undertake a timely and much-needed modernization of the 1962 Satellite Act, with a view toward promoting the benefits of privatization and increased competition in the global satellite services marketplace. Lockheed Martin applauds and supports this legislation – it is a well-reasoned, balanced and effective approach to achieving critical US objectives in a marketplace in which the US always has demonstrated leadership, and in which the US now has the opportunity to do so again.

Mr. Chairman, Lockheed Martin has been a prominent player in the satellite industry for as long as there has been an industry – we have developed, built, and launched more satellites than any other company in the world. But both the downturn in post-Cold War defense spending and the explosive growth in global telecommunications and information markets, have combined to create a strong impetus for LM to evolve even more quickly into a new competitive provider of commercial satellite and telecommunication services. This commercial objective is very important for us and advances the Department of Defense's policy on diversification of its contractor base. At the same time, our government customers are themselves becoming increasingly reliant upon commercial communications systems and services to meet national security needs. Thus, the question for us is clearly not whether to

enter the commercial telecommunications services market, but how best to do it?

Lockheed Martin began its commercial satellite services initiative 3 ½ years ago when we filed an FCC application for authorization to build and operate Astrolink - a satellite system that will make cost-efficient, advanced, broadband communications readily accessible to consumers regardless of location – urban or rural, populated or under-served remote areas. We also have moved quickly to pursue other business opportunities with partners in the US and abroad (LMI, GE Satco, AceS). Several months ago, our Corporation formed a separate Global Telecommunications subsidiary for the specific purpose of focusing our business efforts in the commercial telecom services area. Soon thereafter we announced our intention to acquire Comsat Corporation, a publicly-traded US company. The rationale for this acquisition is very straightforward - to marry our own technological and entrepreneurial assets with Comsat's 37 years of experience as a provider of satellite services.

Mr. Chairman, you may be tempted to ask, given the challenges that confront us, why Lockheed Martin has chosen to pursue a business plan that requires an enabling act of Congress in addition to the normal regulatory approvals. The answer is simple: the Lockheed Martin/COMSAT combination is good for our two companies – and very good for market competition more broadly. Within the next five years, we intend to be a leading provider of worldwide telecommunications services via both satellite and terrestrial infrastructures. As a consequence, our support for satellite reform legislation is driven by two major considerations: First, we are poised to make a \$2.7 billion investment in COMSAT. Let me assure the Committee that we are not pursuing this

investment for the purpose of preserving the status quo at COMSAT— far from it. We want to buy COMSAT, transform it into a normal US commercial business operation, and integrate it into LMGT to form a strong new competitive entrant in the global telecommunications services marketplace.

Second, the Comsat combination will also give us a significant interest in INTELSAT. Mr. Chairman, I can assure you that, as a businessman, we have no intention of buying COMSAT to acquire an 18% share either in a “mini-United Nations” or of a diminishing asset. With all due respect to my colleagues seated with me today, whatever perceived advantages INTELSAT may or may not have in its current incarnation, these advantages are certainly not reflected in its steadily decreasing market share. By the end of this year, the GM/Hughes/PAS satellite fleet will be far larger than INTELSAT, and far better positioned to compete in commercial telecom growth markets. Indeed, INTELSAT’s current position in the US-international market vis-à-vis other satellite and terrestrial competitors is so far from anything that could be accurately termed “dominant” that I have to wonder whether its current structure might not pose a greater threat to itself than to its competitors. The INTELSAT Lockheed Martin wants to be part of is one that can soon be a viable commercial system that operates in a manner indistinguishable from any other commercial system. That’s what this committee and the Administration want as well and are pursuing. This is why we see our combination with COMSAT as a means for achieving not only our own business objectives, but major US policy objectives as well.

We view your ORBIT bill as an ideal way to achieve our mutual objectives and

as a result, Lockheed Martin is keenly interested in the passage of this legislation early in this session of Congress. We need congressional action in order to acquire and reshape COMSAT, enabling the emergence of a vibrant competitor. ORBIT legislation appropriately removes outdated ownership caps and governance provisions upon enactment, and similarly prohibits government intrusion into COMSAT's competitively won contracts with its corporate customers.

Congress is faced with some fairly simple, but important, choices: you can enhance competition by allowing COMSAT to be acquired and repositioned so that it can move away from its static past and play a key role in the dynamic future of the commercial satellite industry; or you can diminish competition by allowing COMSAT to languish as a result of the delaying tactics of its competitors – companies, such as Hughes, a subsidiary of General Motors and itself a parent corporation to several satellite systems including PanAmSat, DirecTV, and - if they continue to consolidate - USSB and PrimeStar/Tempo. These companies dwarf COMSAT in size [Note: Both GM and GE are larger companies than LMC], have greater financial resources, considerable global presence, no statutory ownership or governance restrictions, and no comparable and burdensome regulatory oversight. Moreover, they and others already have extensive, dedicated satellite systems in operation – COMSAT does not and neither does Lockheed Martin. Thus, the Lockheed Martin/ COMSAT combination – if allowed to proceed - can only enhance healthy competition in the global marketplace: That may not be good news for the established players, but – Mr. Chairman – it is good news for consumers in this country and elsewhere. They will

have more choices among suppliers, and greater access to competitively- priced services, which I know lies at the heart of your satellite reform legislative efforts.

We also firmly believe that the INTELSAT privatization process can benefit directly from legislation that defines the US view of what constitutes a pro-competitive INTELSAT privatization. Congress also has the opportunity to act quickly and send a firm but reasonable signal to the US's partners in INTELSAT about US determination to see the organization thoroughly and quickly privatized. The privatization process is already taking shape and Congress has a unique opportunity to have a positive impact on it. For years, some critics have maintained that INTELSAT's intergovernmental character gives it an unfair advantage in the global marketplace. ORBIT recognizes this by appropriately withholding further expansion of INTELSAT in the US marketplace until it sheds its intergovernmental status through a pro-competitive privatization – ORBIT uses expanded access to the US market as the proverbial carrot to INTELSAT. At the same time, INTELSAT management and many Signatories understand that these very same intergovernmental attributes are now a handicap (particularly in getting Signatories to make the necessary capital investment commitments) in a dynamic and increasingly competitive global market. As a result, there is pressure from within and without INTELSAT to evolve quickly from an inter-governmental treaty-based organization into a true commercial company, one that is indistinguishable from other competitors in the global satellite services market. I firmly believe that the marketplace imperatives that compel this transformation are well understood by INTELSAT management and its leading Signatories. The vision of privatization set forth in the

Orbit legislation also is in the US interest in that it ensures continued competition among global satellite systems – rather than market dominance by any single system – not INTELSAT, GM/Hughes / PAS, GE, Loral or anyone else. One of the most effective ways to promote long-term facilities-based competition in the international satellite telecommunications market is to put an end to the conditions that both insulate and handicap INTELSAT by spurring the pro-competitive privatization of INTELSAT.

Legislation, such as ORBIT, would serve as an effective, but appropriate, means for encouraging a *bona fide* privatization. Specifically, we support the bill's clearly defined timetable for privatization: the process should be completed by no later than, but preferably prior to, 2002. Speed is not the only goal, however. Privatization must transform this politicized and bureaucratic organization in a pro-competitive manner. In Lockheed Martin's view, pro-competitive privatization must entail both termination of INTELSAT's intergovernmental status and its privileges and immunities, such as tax exemption and anti-trust immunity, and operation in the marketplace fully subject to the laws and regulations applicable to other commercial satellite system operators. Why do we believe this? Because only upon its fully fledged privatization will INTELSAT – and its owners – be genuinely subjected to the positive discipline of the marketplace. And this, we believe, will make the organization more efficient and ultimately more profitable. INTELSAT would also be required, as a condition of access to the US, to not enter into any arrangement to secure exclusive access to any national telecom market. The privatized post-INTELSAT entity would then be permitted, subject to the same FCC regulatory approval as its competitors, to expand its access to the US

market in terms of customers and service offerings.

Lockheed Martin is committed to using its prospective role as an INTELSAT stakeholder to vigorously support and advance the US objectives for rapid and complete privatization of the organization. Quite frankly, our business plans only entail a future relationship with a fully privatized INTELSAT, and we will, by virtue of our \$2.7 billion investment in COMSAT, probably be the most highly motivated entity – in either the public or private sectors - to bring about such a result as quickly and as thoroughly as possible.

However, all of us in this debate – private and public sector participants – must carefully address the best way for the US Government to exercise a constructive role in a multinational, intergovernmental setting like INTELSAT. The US, as you fully know, played a key role in the formation of INTELSAT, and it was in furtherance of important US foreign policy goals that our Government worked to have so many countries join in this US-led satellite communications initiative. As a consequence of the US's historic role, the US needs to remain mindful of the multilateral nature of INTELSAT privatization. The US Government must be especially attentive to the concerns of developing countries that do not view their small telecom service requirements nor those of their consumers as being of any great commercial interest to INTELSAT's commercial competitors. INTELSAT's treaty commitment to serving all countries, rich and poor alike, providing universal access under a regime of non-discriminatory pricing – for both lucrative and uneconomical routes - has led many of INTELSAT's less developed member countries to rely on INTELSAT as not only a carrier of last resort

but as their only link to the world.

On the other hand, we also understand that there are long-standing concerns about market access to foreign markets by US providers of commercial satellite services. We share these concerns. With respect to satellite market access issues linked to the investment of government-owned telecom entities in INTELSAT, it is clear that, as a result of market incentives and the persistent market opening efforts of the US Government over many years, there is an irreversible trend toward market liberalization and privatization around the world. In fact, approximately 75% of INTELSAT is owned today by telecommunication entities that are privatized to some degree or committed to privatization. To the extent that satellite market access issues have been linked to the role of INTELSAT itself, I would point out that as of February 1997, of the 52 countries that made WTO market access commitments for fixed satellite services, 50 of them are INTELSAT member countries – demonstrating that there is nothing inherent about INTELSAT’s investment structure that impedes a country from opening its market to competition. And, while the privatization process should result unqualifiedly in an INTELSAT that does not have the ability to compete unfairly with other commercial satellite operators, the INTELSAT privatization process is not the appropriate mechanism for addressing broader satellite service market access and trade concerns. These concerns should be addressed through either the WTO or, perhaps more effectively – through a focused US program of bilateral trade negotiations with “problem” governments.

We also support the bill’s requirement that the privatization process be reviewed

by the Executive Branch on the basis of relevant criteria set forth in statute, and that a determination be made concerning whether the privatization process either is or is not pro-competitive. On the basis of this review, the FCC would then be able to accept and process applications for or by the privatized INTELSAT in the same way it deals with other satellite-related applications - applying the FCC's current DISCO II standard and its traditional public interest test. We believe that this is the appropriate "division of labor" within the government - one that ensures that all issues raised by the privatization process of an intergovernmental organization are reviewed by the competent agencies, and that licensing related to the privatized INTELSAT can move forward quickly. Mr. Chairman - your bill is, appropriately, 'de-regulatory' - consistent with what the US quite literally 'preaches' to the rest of the world. Perhaps as a relatively new player we take US rhetoric about the importance of minimal regulation too seriously. But I have to admit that we have been taken aback by other proposals in this area that would involve elaborate rulemaking proceedings that would go on for years, and page after page of detailed licensing requirements. An overly complicated regulatory process - and the protracted delay that would result from the procedural gamesmanship such a process would encourage - do not serve the goals of either privatization or enhanced competition. It would only serve to advantage INTELSAT's competitors. A fully privatized INTELSAT is an important prerequisite to establishing a level competitive playing field. Congress should not allow itself or this legislation to be used by one set of competitors to mis-use the regulatory process for the purpose of delaying or precluding the privatized INTELSAT from being a full participant in the

marketplace. Nor should a properly privatized INTELSAT be subject to an ongoing, special regulatory regime unique to it alone – or be made to bear regulatory burdens to which no other industry player is subject.

Mr. Chairman – the ORBIT bill recognizes that enhanced competition is not something that can be micro-managed into existence by legislators or regulators, but must instead arise freely out of the pursuit by commercial adversaries of customers under laws and regulations that apply equally to each. ORBIT will promote just such a competitive environment - a level playing field - and the Lockheed Martin-COMSAT transaction is exactly the type of market-driven combination that is the logical and beneficial outcome of such an environment. Should Congress enact legislation embodying these principles this year, the winners will be the consumers of international telecommunications services. Enactment of ORBIT legislation will make those consumers – from populated urban centers to remote and rural areas – the beneficiaries of enhanced competition, technological innovation and the availability of advanced communications services at competitive prices. ORBIT also will strengthen the U.S. position in the global marketplace and preserve and grow jobs in an important economic sector. Accordingly, Lockheed Martin urges the Senate to help make this reform of the competitive marketplace a reality by enacting ORBIT as expeditiously as possible.

Thank you for inviting me this morning and for listening to my brief presentation. I look forward to addressing any questions that you may have about Lockheed Martin's support for the ORBIT bill or matters related to our proposed acquisition of COMSAT.

